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CENTRAL INTELLIGENCE AGENCY  
OFFICE OF CURRENT INTELLIGENCE  
DAILY DIGEST

Date: JUL 10 1951

- NOTE: 1. This summary of significant reports has been prepared primarily for the internal use of the Office of Current Intelligence. It does not represent a complete coverage of all current reports in CIA or in the Office of Current Intelligence.
2. Comments represent the preliminary views of the Office of Current Intelligence.
3. Marginal letter indications are defined as follows:
- "A" - items indicating Soviet-Communist intentions or capabilities
  - "B" - important regional developments not necessarily related to Soviet/Communist intentions or capabilities
  - "C" - other information indicating trends and potential developments

NAVY, USAF and DOS review(s) completed.

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SECTION 1 (SOVIET)

25X1 "B" USSR. Survey of Canal Construction Begins. Comrade Batkov, construction head of the Soviet Ukrainian and North Crimean canals reports that several research and surveying expeditions are now studying the terrain, making topographic charts of the areas involved, and marking out the contours of the future canals. Thousands of tons of various materials including building supplies, machines and equipment of every sort are arriving daily at the construction site. Five construction administrations have been set up in Zaporozhye, Melitopol, Vasilyevka, Snigirevka and Dzhankoi, where erection of houses and plants has already commenced. Trunk highways, communication lines and "other" means of transportation are being started. Thirty-five thousand square meters of living space will be built this year for construction workers, engineers, and employees. Nearly 20 construction administrations will be set up along the entire length of the canals. A great number of qualified, mechanical personnel will be required. To meet the demand, 900 specialists will be trained this year in three combines, located at Zaporozhye, Kherson and Melitopol where excavators, topographers and other workers will be processed. [REDACTED] COMMENT: Completion of this large irrigation system for the Crimean, Kherson and Zaporozhyean Oblasts is planned for 1957. Apparently the purpose is entirely agricultural with special emphasis on cotton.

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"B" EASTERN EUROPE. HUNGARY. State Department Will Strongly Protest Arrest of US Legation Employee. The Department of State has requested the US Legation in Budapest to formally protest the arrest and detention, in connection with the Grosz trial, of the US Legation employee Pongracz. The Legation has been advised to include the following points in the protest: (1) the work done by Pongracz was legitimate in character and any contrary conclusions are deliberate and malicious untruths; (2) the accused, who had an anti-fascist war record, was employed by the Legation with the full knowledge of the Hungarian Government; (3) the lengthy incommunicado detention of the accused has given the Hungarian authorities ample opportunity to apply its notorious methods of persuasion to extract

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25X1 a "confession"; (4) a protest to the Hungarian Government for not permitting Legation observers at the Pongracz trial; (5) the treatment of the accused as further evidence that the Hungarian courts have been perverted into political instruments of the Communist Party and dedicated to the suppression of human rights; and (6) the full and lasting responsibility for its repressive actions which will devolve upon the Hungarian Government.

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25X1 "B" TRIESTE. US Seeks to Regulate Yugoslav Refugee Influx. Because of the continued entry of undocumented refugees from Yugoslavia into Trieste, the US Government is suggesting to the Yugoslav Government that arrangements to secure the necessary documents for such refugees be made at the British Embassy in Belgrade. If the necessary arrangements can be made with the Yugoslav Government, and pending further instructions from Allied authorities in Trieste, the Department assumes that the British Embassy in Belgrade would grant permits to all persons requesting them, except for security risks. COMMENT: The uncontrolled influx of Yugoslav refugees into Zone A of Trieste has continued at the rate of approximately 150 weekly despite assurances from the Yugoslav Government early in June that no refugees would be allowed to cross the Yugoslav border into Trieste without proper visas.

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SECTION 2 (EASTERN)

"B" INDIA. Army Strength Will Not Be Reduced As Planned. Indian Army headquarters has confirmed a press announcement that the projected reduction in strength of the Indian Army (which was to have commenced on 1 April 1951) has been postponed indefinitely. Deterioration in the international situation was given as the reason. [REDACTED]

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25X1 [REDACTED] COMMENT: The Government of India has become increasingly aware of the dangers of Communist infiltration along the northern and eastern borders of the country and has taken steps to increase the military security of those regions. Since the Indian Government probably also anticipates trouble from Pakistan if the UN permits the Indian-dominated Kashmir Constituent Assembly to convene and to vote for accession to India, it is not likely to reduce its forces in and near that State to any great degree.

"B" Terms of Soviet And Chinese Food Barter Deals Will Not Be Released. On 6 July, the Secretary of the Ministry of Food and Agriculture told a US Embassy officer that the Government of India will not reveal for a year the precise terms of its foodgrain barter deals with the USSR and China. The Indian official stated that revelation of the terms would raise the prices of commodities which the Government must buy for barter purposes and would allow other countries to make critical comparisons of terms offered to them. The US Embassy believes on good authority that raw jute, tobacco, tea, and lac (shellac) are the only Indian commodities involved in the trade for 100,000 tons of Soviet wheat. Jute goods are definitely included in the Chinese barter agreement. Further purchases and barter deals have been indefinitely postponed. [REDACTED]

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"B" General Railway Strike Called. Following prolonged unsuccessful negotiations with the Government, the Council of the All-India Railwaymen's Federation (AIRF) has decided to call a general strike beginning on 27 August. [REDACTED]

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COMMENT: The AIRF is the largest federation of Indian railwaymen. A general strike effected by it would cause immediate, major disruption of the Indian economy. It would be particularly serious at the present time when both shipping and rail facilities are being strained to the utmost to carry food to needy areas. It would adversely affect the exports of manganese and jute to the US, both of which commodities are vital to the US rearmament effort. Furthermore, it would provide Communists with an opportunity to carry out sabotage which could be blamed on striking railwaymen. If the AIRF remains adamant, the Indian Government will probably be willing to make extensive concessions at the last moment to prevent the strike from taking place.

"C" THAILAND. "Victorious" Generals Rewarded. The four police, army and air force generals credited with suppressing the recent coup attempt have been generously rewarded for their efforts. Lt. Gen. Phao Sriyanon

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has been promoted from the deputy directorship of the police to be Director General. Gen. Sarit Thannarat has been elevated from commander of the 1st Army to Deputy CinC under Gen. Phin Chunawan, Phao's father-in-law. The navy air force has been placed under the command of Air Marshal Fuen Ronnapakas, who ordered the bombing of naval installations. The marines are to be reduced to a single regimental combat team and transferred to the army. The navy's former responsibility for the defense of southeastern Thailand has been assigned to the army which has occupied most of the navy's bases. [REDACTED]

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25X1 [REDACTED] COMMENT: It will be surprising if friction does not soon develop within this quadrumvirate mentioned above.

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"C" Fund-Raising Campaign to Continue. Peiping radio asserts that Chinese "public opinion" opposes any slowdown in the campaign for funds to purchase heavy equipment for Chinese forces in Korea. A Communist spokesman is quoted as declaring that "irrespective of negotiations, we must fulfill our donation plan to strengthen our national defenses..." A group of Communist-controlled professors states that "America is still not sincerely for a peaceful settlement of the Korean question," as the US "has not ended its occupation of Taiwan nor its conspiracy for a separate peace with Japan."

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COMMENT: The fund-raising campaign was launched with great fanfare only three weeks prior to Malik's cease-fire proposal. Peiping's propaganda regarding a Korean settlement continues to be ambiguous. On one hand, Peiping suggests that the Korean conflict will be settled (i.e., indefinitely postponed) and that the attention of the Chinese populace will be redirected toward Taiwan, Japan and other issues. On the other hand, Peiping implies that a Korean settlement must involve the questions of title to Taiwan and Chinese Communist participation in the Japanese peace treaty.

"C" Kwangtung, Kwangsi Provincial Borders Redemarcated. The redemarcation of the Kwangtung-Kwangsi provincial borders, giving the latter direct access to the sea, was effected in May, according to a Hong Kong press release. This order of the Central-South Military and Administrative Commission transferring the three southwestern hsien (counties) Hopu, Fangcheng, and Chihhsien deprives Kwangtung of its contact with Indochina. In exchange Kwangtung reportedly received Kwangsi's northeastern hsien of Huaichi.

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COMMENT: This change has been rumored as imminent for several months, and is regarded as probable.

"C" KOREA. Identity of North Korean Negotiator Major General Lee. Major General Lee Sang Cho, one of the Communist cease-fire negotiation team, has been identified as a Peiping-oriented rather than a Moscow-oriented Korean Communist. Lee was an influential North Korean Labor Party official following his repatriation from Yanan but was demoted in the 1946 purge of Yanan-Koreans to a minor position in the Ministry of Commerce. The selection of Nam Il, one of the foremost Soviet-Koreans, and Lee as negotiators may represent a move to maintain the balance of Soviet and Chinese Communist interests in North Korea. The relationship between these two and the Chinese Communist negotiators may indicate the relative present power position

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25X1 of Moscow and Peiping in the area. [REDACTED]  
COMMENT: Radio Peiping on 9 July indicated that a third North Korean representative, General Chang Ping-shan, has been named. If this appointment proves correct and General Chang's political orientation can be identified, some deductions on the Moscow-Peiping-Pyongyang chain of command may be drawn.

"C" JAPAN. National Police Reserve Said to be Inefficient. The Japanese newspaper "Nippon Yukan", reports that members of the National Police Reserve (NPR) are low in morale, lack discipline and enthusiasm, are poorly trained, and are split by dissension between former  
25X1 military men and the newcomers. [REDACTED] COMMENT: There are indications that the effectiveness of the NPR, which has often been referred to as Japan's embryo army, is seriously hampered by a lack of senior officers trained for high level command and staff leadership. All Japanese ex-military men of this calibre are now under purge restrictions and unable to take part in the NPR. Some observers believe that the NPR, organized as an internal police force, will never become any more than that because its members do not consider themselves as soldiers; consequently, any future army would have to be formed on an entirely new base.

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SECTION 3 (WESTERN)

"B" GERMANY. Interior Ministry Official Fears Communist Demonstrations in Federal Republic During Berlin World Youth Festival. In conversation with HICOG officials, State Secretary von Lex of the West German Interior

25X1 Ministry, claimed [redacted] that East German Communists plan east-to-west border crossings in groups up to a few thousand each for the period of the 5-19 August East Berlin World Youth Festival. Von Lex stated that Federal Customs guards stationed at the Soviet Zone border would be ordered to use force to prevent such crossings and that it was hoped that Federal Border Police units would be sufficiently strong and mobile to cope with any invading groups which eluded or overpowered the customs guards. [redacted]

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25X1 COMMENT: No other reports of planned Communist east-to-west border crossings have been received. Although it is possible that minor infiltrations of East Germans into the Federal Republic border areas will occur, it is believed that any major movements will involve primarily West Germans and that any clashes with West German law enforcement agencies will take place when groups of West German Communist youths cross the border on their return to West Germany after the festival.

"C" Doubling of Border Police Expected. Officials in the West German Ministry of Interior are confident that they will be able to obtain parliamentary approval for doubling the strength of the newly created federal border police, which now numbers 10,000. They are convinced that the mobile alert police originally authorized by the Allies to help maintain internal security will, because of provincial opposition, never be organized in full strength. To fill the resultant gap, they want to double the strength of the border police and equip it with materiel such as light armored vehicles. The strengthened force would then be able to help combat anticipated disturbances by the recently outlawed Free Communist Youth. This latest government proposal has been attacked by the opposition Social Democrats, who have hitherto cooperated in police matters, as a "back-door" attempt to create a cadre for a new German Army, particularly by the assignment of former high-ranking German Army and General Staff officers to posts in the new force. [redacted]

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25X1 COMMENT: Government officials have made little secret of the fact that the new border police would be used for more than its ostensible purpose, especially since much of the border control is now handled by the individual states. Since last March the Minister of Interior has wanted to double the force to increase its effectiveness in preserving internal security. Meanwhile press reports indicate that former Gen. Gerhard Matzky was named on 9 July to head the Border Police.

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"B" FRANCE. CGT Moving Cautiously in New Round of Wage Demands. The Paris metallurgical industry which has consistently led in granting cost-of-living raises, has offered a cost-of-living increase of only 4% in response to the unions' demands for 10%. The Communist-led General Labor Confederation (CGT) and all the important non-Communist unions joined in presenting these demands. The industry's stiff policy in this instance indicates opposition to taking responsibility for a new round of wage increases before the next government makes over-all economic decisions. [REDACTED] COMMENT:

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Despite the growing indications that the CGT plans a new strike offensive, it has apparently not attempted to call an immediate strike following this rejection of the metalworkers' demands. This is an example of the care which the CGT can be expected to observe in preparing new strikes. All major campaigns were lost in recent years because the CGT's excessive demands were obviously political, it tended to move precipitately, and close unity of action with the non-Communist unions was not pursued. The economic basis for strong worker support of a new round of wage demands already exists in the 30% rise in the cost-of-living in France since 1949--compared to an average rise in wages of between 15% and 20%--and may well be fortified in the early fall by the inflationary effects of the government deficit and greater military spending.

"C" ITALY. Italian Sulphur Production Drops. As a result of strikes and slowdowns this year's sulphur production to mid-May is 14% less than that of the same period in 1950. Meanwhile, the lower house of the Italian Parliament has approved a bill appropriating about \$28.8 million for the modernization of the sulphur and coal mines. The bill will not be acted upon by the upper house until September, but some \$320,000 in ECA counterpart funds are being advanced immediately to start geological surveys and technical research.

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[REDACTED] COMMENT: Sulphur, which is in critical short supply in many NATO countries, is one of the few strategic raw materials produced by Italy in sufficient amounts for export. The Italians have used sulphur to bargain for a wide list of raw materials from foreign sources. Significant increases in production will not be obtained immediately, for much work must be done to improve the productivity of existing sulphur mining operations.

"C" Anti-Aircraft Maneuvers Marked by Close Italo-French Cooperation. Both French and Italian officials expressed pleasure over the results of recent Italo-French anti-aircraft maneuvers, despite the obsolete nature of the radar equipment and of many of the planes. New radar equipment is scheduled for delivery to the Italians during 1952. Five promised long-range radar sets

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25X1 will be installed along the Adriatic Coast to provide coverage toward the East. Three-way exercises between the UK, France, and Italy are scheduled for October. [REDACTED]

COMMENT: The most important aspect of these maneuvers is the genuine cooperation evidenced by both countries. This augurs well for Italian and French potentialities in strengthening NATO defenses.

"C" SWEDEN. Communists Dismissed from Defense Plants. The Minister of Defense has ordered the dismissal of Communist sympathizers employed at various defense plants and navy yards. The trade union involved felt obliged to protest against the alleged violation of the collective wage agreement, but the Minister merely referred the union to the Labor Court. [REDACTED]

25X1 COMMENT: For some time the Swedish Government has earmarked and closely observed potentially dangerous Communists; but it has previously been unwilling, because of trade union opposition, to dismiss an individual solely because of his political sympathies. Therefore, the above action represents a more realistic policy and undoubtedly reflects a growing realization of the actual danger posed by potential subversives in semi-military defense establishments in a period of increasing international tension. The government's action appears to be confined to actual defense establishments and has not yet extended to non-military governmental plants and facilities or private industry.

"C" UNITED KINGDOM. Plans for Relief of British Naval Units in the Persian Gulf. The British Senior Naval Officer in the Persian Gulf has recommended that, unless the situation alters radically, the British naval units in the Gulf should be rotated. The present program calls for the light cruiser "Euryalus" to relieve the "Mauritius" on 21 July, the frigate "Wild Goose" to relieve the "Flamingo" on 15 July, the landing ship "Dieppe" to replace the "Messina" on 5 August, and the frigate "Wren" to make a ten-day cruise in the vicinity. [REDACTED]

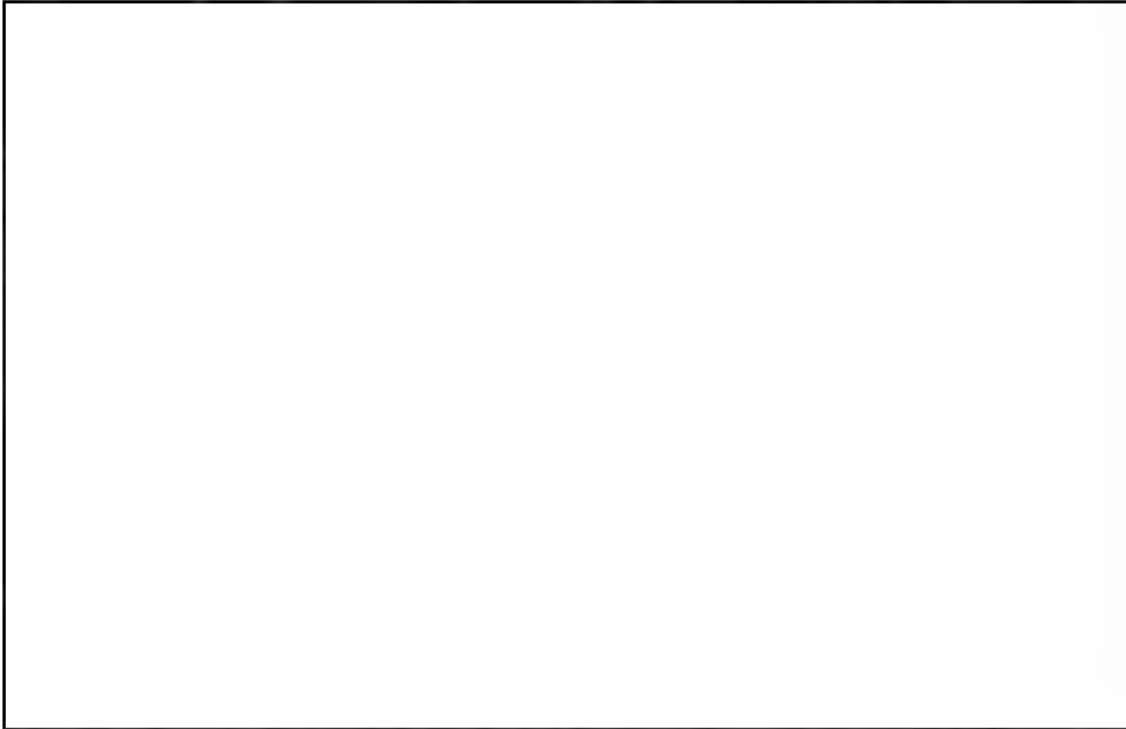
25X1 COMMENT: This reshuffling will undoubtedly give rise to claims of British reinforcements, but it is actually an even exchange made necessary by the refusal of the Iranians to permit vessels to replenish their fresh fruits, vegetables and water, so that the health of the personnel is endangered.

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"C" JAMAICA, B.W.I. ECA Loan to Boost Bauxite Output. The ECA announced it plans to lend a subsidiary of Reynolds Metals Co. \$3,824,000 to boost bauxite-producing facilities in Jamaica. The subsidiary, Reynolds Jamaica Mines, Ltd., is to pay 4% interest on the loan and to repay it in aluminum over a period of 11 1/2 years. In addition, the firm is to spend about \$450,000, and the sterling equivalent of \$1,250,000 for the project. The agreement gives the US Government an option to buy for dollars not less than \$750,000 or more than \$1,500,000 of aluminum, in addition to repayment of the loan and interest. [REDACTED]

[REDACTED] COMMENT: The Reynolds Metal Company has a contract with the ECA to mine bauxite in northern Jamaica. The bauxite will be reduced to aluminum at the Reynolds Metal Company plant in Arkansas and is to be destined for the US stockpile of strategic materials. Jamaica bauxite ore reserves (45 to 50% Alumina content) are estimated to range up to 300 million tons. An initial production target of 750,000 tons per year has been established but actual extraction of the ore and shipments will not begin before early 1952.

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OFFICE OF CURRENT INTELLIGENCE  
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SECTION 2 (EASTERN)

"B" INDOCHINA. French Government Still Unwilling to Repatriate Chinese Troops.  
The Director of the Far Eastern Division of the French Foreign Office confirms that the French Government continues to be unwilling to repatriate Chinese Nationalist troops now interned in Indochina. He says that the cease-fire negotiations in Korea have made the French Government all the more firm in the matter of repatriation, since a settlement in Korea would free the Chinese Communists for a possible move against Indochina and the French Government is even less inclined than heretofore to give the Chinese Communists a pretext for action. [REDACTED] COMMENT: The French Government was approached on this matter in connection with the scheduled visit to Indochina of General Chase, chief of MAAG in Taipei. General Chase has expressed interest in the disposition of the 27,000 Nationalist troops interned in Indochina. The French Government's position represents a reaffirmation of long-standing policy.

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"B" CHINA. Nationalist Insistence on Simultaneous Bilateral Treaty with Japan.  
Chinese Nationalist Foreign Minister YEH, upon receipt of the amended Japanese treaty draft, informed the US Charge in Taipei of his Government's desire to announce, simultaneously with publication of this draft text, that it plans to undertake negotiations for a bilateral Sino-Japanese treaty, similar to the multilateral treaty and scheduled to come into force at the same time. YEH added that no discussion with Japan for a bilateral treaty had as yet taken place, as prior US agreement is essential, but that he is disturbed over reports that the Japanese now plan to await the implementation of the multilateral treaty before "choosing" which China they will deal with. In view of his feeling that only US "encouragement" could prevent such a Japanese course, YEH expressed the wish that some sort of assurance in this regard be provided in the current Dulles-Koo discussions. Failing this, the Foreign Minister requested that publication of the draft treaty be delayed until such an agreement could be effected with the US. [REDACTED] COMMENT: The present Chinese Nationalist insistence upon a simultaneous bilateral treaty with Japan indicates their definitive acceptance of non-participation in a multilateral peace treaty. Contrary to YEH's statement, it is believed that discussions with the

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Japanese on a bilateral treaty have taken place and that the Chinese Nationalists want to obtain US support. There are indications that Japan, although sympathetic to the Chinese Nationalist regime, would prefer not to make a decision on the Chinese signatory question pending further clarification of the international situation.

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